

HISTORICAL HORSE RACING

Examining the Potential of an Emerging
Sector of the Gaming Industry

A Fantini Research Publication

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The Historical Horse Racing Phenomenon

Slot-like historical horse racing machines – also called instant racing machines – have become increasingly popular in states where it is not legal for racetracks to operate conventional slot machines or table games, and where the racing industry has lost profits to casino gaming.

- Kentucky and Wyoming operate successful markets.
- There are some small operations in Alabama, Arkansas and Oregon.
- Virginia will open soon.
- Illinois and Nebraska racing regulators are working to allow the games.
- Legislation is pending in New Hampshire and New Jersey.

—* The immediate future looks bright in areas that are not served by casinos. *don't use* *

The market traditionally has few manufacturers. Privately-held Exakta Systems and Stronach Group's PariMAX have been the primary suppliers for several years.

Australian-listed gaming supplier Ainsworth entered the market last year in partnership with Churchill Downs, stirring up new interest in the games with a 900-machine installation at Churchill's new \$65 million Derby City Gaming facility in Louisville, Kentucky.

In a November trading update, Ainsworth said it obtained regulatory approvals in Nebraska and Virginia.

The games are touted as a solution to the nation's ailing horse racing industry by generating revenue that can finance race purses and breeding operations.

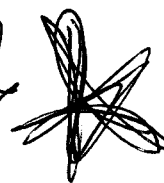
But not everyone is a fan. Critics claim the games are simply a work-around in states that ban slot machines at racetracks. Historical horse racing has faced opposition and legal challenges in every state where it operates.

Many observers think historical horse racing is just a stop-gap that will go away in jurisdictions that legalize conventional slot machines.

What is Historical Horse Racing?

Historical horse racing uses a pari-mutuel approach that, depending on the state, falls within existing laws that allow horse race betting.

Sometimes called instant racing after the original product name, historical horse racing machines differ from slot machines because bets are pooled in a pari-mutuel fashion with game outcomes decided by the random selection from a database of historically run races.



what are we talking about?

This presents a gambling option in states where casino gaming isn't permitted, or where adding casino gaming to racetracks would create competition for existing commercial or tribal casino industries.

~ this is also what we refer to as progressive machines

The machines look like slot machines. They play a randomly selected video of an historically run horse race from a library of tens of thousands of races. The identifying information such as the names of the race, horses, locations and dates are withheld.

Gamblers are given handicapping data such as jockey and trainer win percentages, the horse's odds, and certain statistics on past performances.

The player has the option of setting handicaps and choosing the order of race finishers. This may give the player a feeling of some control over the potential outcome, further differing the product from traditional slot machines.

A race video plays on the top monitor of an in-play historical horse racing game by Ainsworth.

But that option slows down play. So, a player can also choose to let the machine pick the races by simply pushing the bet button and watching flashing graphics and spinning reels, just like any other slot machine.

Historical horse racing machines were originally conceived and developed by RaceTech, owned by the Cella family, which owns Arkansas Thoroughbred racetrack Oaklawn Park.

RaceTech's machines were developed in partnership with tote operator AmTote International. Stronach Group now owns AmTote and RaceTech, and has merged RaceTech with AmTote's game manufacturer, PariMAX.

A Significant Addition to the Industry?

The biggest question is whether historical horse racing machines will develop into a significant part of the gaming machine industry.

Ainsworth took the leap into manufacturing the games in collaboration with Churchill Downs, which was looking for a fresh twist on the concept that was introduced 18 years ago.

Ainsworth delivered, and its entry into the market appears to lend credibility to the games' potential.

Business Model

The machines appear comparable to Class II slots in price and win per unit.

The business model varies by agreement between manufacturer and operator. For example, Exakta will sell units or place them on participation, depending on the customers' needs and the individual agreements.

Fees and revenue split also vary, but appear comparable in the range of a Class II standard 80/20 split.

The average Class II slot machine sale price is around \$17,000 to \$20,000 per machine, with average daily win per unit of \$120 to \$150.

Ainsworth reported the sale of 900 machines with more than 60 games to Churchill Downs generated about \$14.723 million in revenue for Ainsworth, indicating an average price per machine of about \$16,359. That likely includes cost of maintenance and other related services.

The average win per unit appears to be around \$115 to \$120 per day in the markets that report revenue data, but the range varies from a high of \$222 per machine at Kentucky Downs, a 45-minute drive from Nashville, Tennessee, to \$62 at Keeneland/Red Mile in Lexington, Kentucky.

The market for historical horse racing machines appears to be much smaller than Class II slots, and long-term agreements already in place between certain operators and suppliers may create barriers to market entry and expansion opportunities.

Fantini Research asked several major casino suppliers for their take on the games and whether they see themselves in the market in the future. The wait-and-see approach appears to be the consensus for now.

"The historical racing industry is certainly worth understanding and investigating. If you are a manufacturer and you are not exploring it, then you are asleep at the wheel. There are a number of small companies that are thriving in the instant racing business, and we will certainly be watching them closely to see how things unfold and whether the markets where they are successful might potentially legalize slot machines or continue to use the instant racing games to deliver a slot-like experience based on the outcomes of horse races," AGS Senior Vice President of Slot Products Andrew Burke said.

"IGT has not announced any plans to participate in the horse racing machine market," Sr. Director of Marketing and Communications Phil O'Shaunnessy said. "What (IGT demonstrated) at G2E gives you great insight to our areas of focus... we have a very diverse portfolio of gaming entertainment already."

The history of the games based on the concept of pari-mutuel wagering is not unlike the beginnings of Class II slots, which were a mechanical evolution from paper bingo.

The recent growth of this emerging technology has caught the attention of policy makers across the nation and will be a focus at the winter meeting of the National Council of Legislators from Gaming States.

"As states look to both support their pari-mutuel industries and expand their gaming options, they are examining whether historical horse racing is a viable option – both from an economic and legal perspective," NCLGS President and Ohio Sen. William Coley said.

Fantini Research will be tracking trends and publishing follow-up reports as the market develops.

National Overview

The machines are currently legal at racetracks and off-track betting locations in six states – Alabama, Arkansas, Kentucky, Oregon, Wyoming, and Virginia, which will begin operations this year.

There are roughly 3,700 machines currently operating. An average win per unit per day of \$115 would suggest total revenue of about \$155 million per year.

When Virginia's market opens and planned installations are completed in Kentucky, and if certain operators in Kentucky and Wyoming decided to install to full capacity, the total number of machines in operation could grow to around 10,300.

If average win per unit is \$115 that would suggest revenue potential of around \$432 million per year. But average win per unit could grow much higher. One of the planned installations in Kentucky is a joint venture between Churchill Downs and Keeneland for a facility with up to 1,500 machines in Oak Grove, Kentucky. It's about an hour's drive northwest of Nashville, which has a population of nearly 2 million. It would share the market with Kentucky Downs, which is about a 45 minute drive north of Nashville.

Nebraska and Illinois markets would be additional.

The Nebraska State Racing Commission recently determined the games are legal. But the process may have hit a snag as it appears that finding has been rescinded. A public hearing on the matter is set for January 16.

The Illinois Racing Board submitted proposed rules to the state legislature and is awaiting approval.

If implementation is successful, legal challenges are likely in both states. We take a closer look at this below in our Potential Jurisdictions section.

The legality of the machines has been challenged in every state that has attempted to authorize them, with varying degrees of success, including an ongoing court battle in Kentucky.

LEGAL MARKETS:

ALABAMA

PariMAX installed 60 machines at Victoryland in August. The prize pools are shared with PariMAX machines in Oregon and Wyoming.

Attorneys general opinions in 2001 and 2008 stated the machines are permissible under state law if approved by local racing commissions. The state has four racing commissions located in the city of Birmingham, Greene County, Macon County where Victoryland operates, and Mobile County.

Alabama's gaming laws are controversial, and bingo operators were shut down in 2010. After years of lawsuits, in 2015 then-Gov. Robert Bentley adopted a hands-off approach, leaving gaming enforcement up to local law enforcement.

In October, Atty. Gen. Steve Marshall filed civil lawsuits against e-bingo operators in Greene, Houston, Lowndes, Macon and Morgan counties.

Victoryland is named in the suit. It also has electronic bingo machines and simulcast racing.

ARKANSAS

Oaklawn and Southland racetracks were the first to operate instant racing in 2000, but the machines were mostly phased out when voters approved skill-based electronic gaming in 2005.

At its peak, Oaklawn had about 350 Instant Racing machines, but has kept just 10 legacy machines in operation, each of which earns about \$100 per day, Senior VP Eric Jackson told Fantini Research.

The legacy machines appeal to a certain type of customer because they are different, and that customer plays them loyally, Jackson said.

Oaklawn's skill-based games like video poker are more like traditional slots and are more lucrative, he said.

Arkansas will soon allow full-fledged casinos.

KENTUCKY

Kentucky has the biggest market, and it's growing.

Churchill Downs' new Derby City Gaming in Louisville is the biggest property in terms of machines. It has made an impact on the Ohio River market since opening in September, with reported declines in slot revenue and volume of play at neighboring Caesars Horseshoe in Indiana, down 10.19 percent to \$17.4 million in October, and down 15.14 percent to \$17.6 million in November. Derby City's revenue was \$4.377 million in October and \$4.822 million in November.

As of October, the Kentucky Horse Racing Commission reported a total of 2,734 terminals are in operation, including the 900 at Churchill Downs.

Soon there will be more.

There is the joint venture between Churchill Downs and Keeneland in Oak Grove for 1,500 machines, and JACK Entertainment aims to install 250 machines at Turfway Park by June.

Certain operators have not yet installed to full capacity, as shown in the table below.

More than \$4.2 billion has been bet on Kentucky machines since inception in 2015.

Still, there's some appetite for adding casino gaming in Kentucky.

Atty. Gen. Andy Beshear wants legislators to approve casinos, sports betting, fantasy sports and online poker to fund pensions.

Beshear says Kentuckians spend \$1 billion at casinos in bordering states annually.

Historical horse racing also faces continued legal challenges in Kentucky.

Anti-gaming group Kentucky Family Foundation is appealing its 2010 lawsuit to the state Supreme Court, arguing that a circuit court erred when it ruled state laws do not require pari-mutuel bettors to wager on the same horse race.

The October ruling found Exacta Systems' machines, which operate at Ellis Park and Kentucky Downs, do not violate state laws. Should the state Supreme Court decide to take up the case and favor the foundation, there is concern a broader ruling could impact the industry statewide.

Kentucky October figures:

Total Units	October Handle	Revenue	Average Win Per Unit	Regional Comparisons Slots Win Per Unit
2,734	\$140.6 million	\$9.7 million	\$140	Ohio \$198 Illinois \$301 Indiana \$259

Breakdown by Kentucky property:

Property	Number of Machines	Win Per Unit Per Day	Supplier
Churchill Downs Derby City Gaming (newest facility, opened in September)	900 installed Permitted up to 2,000	\$157	Ainsworth
Kentucky Downs	753 installed Permitted up to 1,200	\$222	Exakta
Keeneland/ Red Mile	902 installed	\$62	Exakta and PariMAX
Ellis Park	179 installed	\$97	Exakta

OREGON

Stronach-owned Portland Meadows, the state's only commercially operated horse racetrack, operates over 150 historical racing machines supplied by Stronach's PariMAX.

The machines were legalized in 2013 at commercial racetracks, not fairs or off-track betting facilities. The market faces competition from video lottery and tribal casinos.

In July, the machines generated handle of \$1.7 million, or \$377 per unit per day, according to the Oregon Racing Commission.

Revenue and win per unit figures are not reported.

Oregon figures:

Property	Machines	Supplier	October Handle	Handle Per Unit Per Day	Handle Y-T-D
Portland Meadows	150	PariMAX	\$1.5 million	\$322	\$7.526 million

VIRGINIA

Virginia should open its first historical horse racing facility by March at Colonial Downs with 700 machines. Live racing is expected to resume in the fall. The track has been closed since 2014, and new owner Revolutionary Racing negotiated for approval of the machines.

The first off-track betting location will open in June near Richmond with 700 machines. Up to 10 OTBs are authorized.

Virginia has no casinos or video lottery yet, but the Pamunkey Indians are planning a \$700 million casino near Norfolk and legislation has been proposed for casinos in Bristol, Danville and Portsmouth.

Colonial Downs will benefit from its location 25 minutes east of Richmond, about a three-hour drive from casinos in West Virginia, Pennsylvania and Maryland.

Virginia will have:

Total Units	Colonial Downs	10 OTBs
3,000 authorized	700	150 – 700 depending on local population size

WYOMING

Historical horse racing machines operate at Wyoming Downs and at its eight off-track locations, and by Wyoming Horse Racing at seven off-track betting locations.

Wyoming Downs operates PariMAX machines. Wyoming Horse Racing operates Exacta machines.

Wyoming legalized its market in 2013.

Wyoming 2017 figures:

Total Units	2017 Handle	Revenue	Win Per Unit	Regional Comparison Slots WPU
800 installed 1,043 permitted	\$420.2 million	\$31.3 million	\$107	Colorado \$171

POTENTIAL JURISDICTIONS

Active efforts: IL, NE, NH, NJ

ILLINOIS. Implementation is no sure thing, but the Illinois Racing Board is pushing ahead, and has submitted proposed rules to a state legislative committee.

Following a comment period, revisions could occur, then final approval would have to come from the legislature's Joint Committee on Administrative Rules, and the governor's office. The committee has up to a year to approve or reject the regulations, but full legislative approval would not be needed.

The racing board assembled a committee over the summer to study the issue and recommended moving ahead after finding the games fit within the state's definition of pari-mutuel wagering.

But legal challenges are likely to come from existing casinos, and anti-gambling groups, such as Stop Predatory Gambling.

Racing Board General Counsel Michael Pieczonka has said he would look at the legal arguments but cautioned that it may be illegal.

There is some opposition from the Illinois Thoroughbred Horsemen's Association.

The group wants clarification on whether the races in the machines' library must have been run in Illinois. The distinction is critical because revenue generated from historical horse racing terminals on races run in Illinois would count toward a revenue split between purses and racetrack owners, while revenue from out-of-state races in the library would not have to be split, Blood Horse reported.

Hawthorn and Fairmount racetracks support the proposal, but Churchill Downs' Arlington International Race Course near Chicago reportedly remains neutral as it looks for a bigger prize – a bill for a much larger gaming expansion that could give racetracks conventional slots and possibly table games.

Historical horse racing machines are not viable in markets with other competition, Arlington's GM Tony Petrillo told the Arlington Heights Daily Herald. That may be evidenced by the phase out of the machines in Arkansas.

It might be a tough sell in the legislative committee if the industry isn't united behind the proposal.

The proposed regulations:
<https://www2.illinois.gov/sites/irb/Documents/Rules/HHR%20draft%20regulations.pdf>.

NEBRASKA. The Nebraska State Racing Commission unanimously voted that the machines are legal under the state's statutory definition of pari-mutuel wagering after a presentation by AmTote at its October meeting.

But it appears they may not have authority to authorize the games.

Following the meeting, Nebraska Atty. Gen. Doug Peterson sent the commission an 11-page letter stating the commission violated certain rules in its efforts to allow historical horse racing.

The commission will hold a public hearing on the matter at its next meeting which is scheduled for 10 a.m. January 16. The agenda:
<https://racingcommission.nebraska.gov/application/files/6115/4524/3754/AJan2019.pdf>.

The letter: <https://www.fantiniresearch.com/images/pdf/Att-General-Letter-HHR.pdf>.

Ainsworth reported it received regulatory approvals.

There could be legal challenges from opponents of expanded gambling, who could point to a 2009 opinion by then-Atty. Gen. Jon Bruning that the machines were not legal in the state.

Bruning's opinion:
<https://ago.nebraska.gov/sites/ago.nebraska.gov/files/docs/opinions/AG%20Opinion%202010-009.pdf>.

NEW HAMPSHIRE. Sen. Harold French has filed a request to have a bill drafted for historical horse racing this year.

French filed a bill last year that passed the Senate but not the House.

SB 408 would have allowed up to 58 historical horse racing machines at two simulcast facilities and 13 games of chance facilities. It estimated handle would be \$1,200 per machine per day.

NEW JERSEY. A bill was introduced again to allow historical horse racing machines at New Jersey's racetracks and off-track betting facilities.

ACR 196 would require a constitutional amendment. It must pass the legislature by a three-fifths majority to go to referendum in the state's next general election. If it passes by simple majority, it would need another round of legislative approvals before being eligible for referendum.

The bill has been referred to the Assembly's Committee on Tourism, Gaming and the Arts. If successful, the legislature would have to pass enabling legislation to determine such things as number of machines and tax rates.

Past attempts have failed to authorize historical racing machines or any type of gaming outside of Atlantic City.

Potential future efforts: FL

FLORIDA. Voters approved a constitutional amendment to require statewide referendum approval for any future expansion of casino gaming, but historical horse racing machines are considered pari-mutuel, so it is possible to see a revived effort for these machines here.

However, the political opposition from the Seminole Indians and The Walt Disney Company, which were instrumental in passing the referendum, likely means historical horse racing machines would be an uphill battle.

The Senate added the machines to an unsuccessful omnibus gaming bill earlier this year.

PROHIBITED MARKETS

Many states have not taken any action on the games, but a handful have decided not to allow them:

ARIZONA. Atty. Gen. Thomas Horne opined in 2014 the games are illegal.

Horne's opinion: <https://www.azag.gov/opinions/i14-008-r14-018>.

CALIFORNIA. Historical racing was proposed in 2006 but blocked by the state's powerful gaming Indian tribes.

COLORADO's Horsemen's Legislative Coalition proposed historical racing for the state's only racetrack, Arapahoe Park, in 2008.

Colorado limits gaming to Blackhawk, Cripple Creek and Central City. Statewide referendums failed in 2003 and 2014 to add forms of gaming to the track.

IDAHO voters rejected historical horse racing machines at racetracks in the November 6 election.

It is unclear whether supporters will make another attempt in the future. Gaming Indian tribes opposed historical horse racing when such machines operated at tracks several years ago.

MARYLAND. Atty. Gen. Douglas Gansler opined in 2009 the games are illegal as they do not meet the definition of pari-mutuel betting under state law.

Gansler's opinion: <https://www.courtlistener.com/opinion/3484600/2009/>.

TEXAS. Racing officials voted in 2016 to repeal their 2014 approval of historical racing machines after a lengthy battle with the state legislature.

The legislature argued, and a state district court agreed, that only the legislature has the authority to authorize an expansion of gaming.

It is unclear whether there will eventually be a legislative effort for the machines.

Manufacturers

Several companies make the games, and each has its own unique solution that complies with pari-mutuel betting laws.

AINSWORTH is an Australian-based slot machine company, with its American operations headquartered in Las Vegas. It specializes in Class II slots, interactive games and content, and game cabinets.

Historical horse racing is a new product offering for Ainsworth in partnership with Churchill Downs, with 900 machines installed at Churchill's Derby City gaming facility in Louisville, Kentucky, which opened in September.

Ainsworth sees immediate potential to expand into Nebraska and Virginia, with preliminary regulatory approvals in Nebraska.

The games look like any other slot machine and operate in seven different styles of Ainsworth's high-end cabinets.

Ainsworth's historical horse racing machines on display at G2E 2018.

As the reels spin, a monitor at the top of the machine plays a simulation of the races, showing the player the order of finish between a select number of races.

The player can elect to have the machine choose order-of-finish, or the player can guess the order of finish based on the selection of provided data.

Australian-based Ainsworth is publicly traded with a market cap of \$188 million. It is 53 percent owned by privately held Australian gaming conglomerate Novomatic.

Company website: <https://www.agtslots.com>.

EXACTA SYSTEMS, formerly Encore Racing Based Games, is a privately-owned company established in 2013 that supplies historical horse racing systems and platforms, various game themes, and seven different cabinet models.

Its products are supplied to racetracks in Kentucky and Wyoming.

Exacta supplies its own racing library with much of its data from Equibase.

A Kentucky court recently ruled its games are legal pari-mutuel betting under state law, following a years-long legal battle and field study, although as previously mentioned, the case is being appealed.

The company has corporate offices in Boynton Beach, Florida and Austin, Texas.

Company website: <http://www.exactasystems.com>.

GROVER GAMING is another newcomer, with a Buffalo-themed historical horse racing machine developed for AmTote for placement in Oregon and Wyoming.

Privately-owned Grover is based in Greenville, North Carolina, and primarily focuses on gaming route supply for lotteries, charitable gaming, and other niche gaming markets.

Company website: <https://www.grovergaming.com>.

PARIMAX is part of AmTote, which supplies the technology and services. The Hunt Valley, Maryland-based businesses are owned by privately-held Stronach Group.

PariMAX's games are supplied in Kentucky, Oregon and Wyoming. It pays a percentage of every wager to host track operators whose historical horse racing content is used in its games.

PariMAX claims its machines have generated over \$4 billion in handle.

Company website: <http://www.amtote.com>.

***Editor Laura Briggs plays a
PariMAX historical
horse racing machine at
Wyoming Downs.***

ABOUT LAURA BRIGGS

Laura Briggs is the public policy editor for Fantini Research and has been covering gaming since 2006. As editor of Fantini's Public Policy Review, she focuses on legislative, regulatory and legal issues facing the gaming industry.

ABOUT FANTINI RESEARCH

Fantini Research publishes newsletters and provides research services for C-level executives, institutional investors and legal and regulatory professionals in the global gaming industry. The flagship product is the daily Fantini's Gaming Report, the industry's standard source of comprehensive and timely news and analysis.

Fantini's Public Policy Review is the legal journal of the gaming industry providing news and analysis of legislative, legal and regulatory developments. It is published every Monday and with real-time bulletins as events happen.

Other publications include the monthly Fantini's National Revenue Report, a monthly compilation and analysis of US gaming revenues and trends; and, in partnership with Eilers & Krejcik Gaming, the EILERS-FANTINI Quarterly Slot Survey, and the EILERS-FANTINI Game Performance Report, which is a monthly report on slot performance.

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